

NSC BRIEFING

2 July 1957

CHINESE PEOPLE'S CONGRESS

- I. The National People's Congress--China's version of the USSR Supreme Soviet--is now meeting in Peiping.
  - A. Premier Chou En-lai, Finance Minister Li Hsien-nien and planner Po I-po have given major addresses so far; main theme has been China's continuing need for economic austerity.
    1. Chou admitted that the regime has failed to make clear that it would take "tens of years" of hard and frugal living before a "happy life" could be attained.
- II. However, the speakers tried to play down China's economic troubles of last year, arguing that it was not necessary to stop eating just because "we have choked on a fishbone."
  - A. Although regime calls budgetary situation good, increased spending and disappointing revenues in 1956 resulted in deficit of \$750 million.
    1. For first time since 1950 regime has admitted to printing money to cover current spending.
  - B. Chou overplayed natural disasters in 1956 as worst "in several decades," apparently to ensure that weather and not collectivization will be blamed for disappointing 1956 crop.
    1. Weather in 1956 was bad in some areas--drought in North China and a destructive typhoon in the Yangtze Valley--but not a calamity by Chinese standards. Floods in '54 were much more disastrous.
- III. The 1957 budget--presented at Congress--is an austerity document.

- A. Expenditures have been sliced (defense spending by just under 10%).
- B. Although investment spending cut 20%, heavy industry retains overwhelming priority. (Earlier reports had claimed light industry and agriculture would get a bigger share).
- C. This year revenues and expenditures to be balanced at \$11.9 billion (1956 income \$11.7 billion, outgo \$12.5 billion).

IV. Total foreign trade cut by 90% from 1956.

- A. But budget provides \$207 million for aid to North Korea, North Vietnam, Nepal and Cambodia, against \$164 million in 1956.
- B. On the other hand, China will receive only \$9.7 million in aid from the USSR this year, as against \$47 million in '56. In addition, China must pay back this year around \$250 million on past military and economic loans from the USSR (these loans total \$2,161 million).
- C. Finance Minister remarked that China now in "better position" than in earlier years to rely on its own resources in carrying out its economic programs.
  - 1. What he probably means is that the 1957 program (and possibly those of future years) has been cut back enough so that China can get by with less Soviet aid.